

"WHAT IS TO BE DONE?"

U.S. Assistance to the Former Soviet Union

Robert A. Stratton, Lt Col, USAF
National War College
7 April 1992

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 07 APR 1992		2. REPORT TYPE N/A		3. DATES COVERED -	
4. TITLE AND SUBTITLE What is to be Done? U.S. Assistance to the Former Soviet Union				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) National Defense University National War College Fort McNair Washington, DC 20319				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release, distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT UU	18. NUMBER OF PAGES 31	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

SHOULD WE CARE ABOUT RUSSIA? (AND IF SO, HOW MUCH?)

The cover of the July 16, 1990 edition of Time magazine showed a forlorn Mikhail Gorbachev sitting alone before the Supreme Soviet. The caption read: "Should the West Help Him?" Gorbachev is gone but the question remains and Russian President Boris Yeltsin is struggling to convince us that the answer is yes. The lively debate between supporting the center or the republics seems ages ago and has since been overcome by events. When the republics formed the Commonwealth of Independent States (CIS) and declared the Union dead, the former Soviets made the decision for us with whom we must deal.

Some pundits claim the United States spent about \$4 trillion for the defense of Europe during the Cold War. That figure is only a fraction of the sum spent to contain the Soviet Union worldwide over the past 45 years. At least one analyst asserts that almost 65% of the defense budget - totaling \$8 trillion - was devoted to funding the Cold War arms race.¹ Many American lives were given in Korea, Vietnam and numerous other locations in an attempt to counter apparent Soviet plans to dominate the world. A lot of money and blood were invested and the struggle appears victorious. It is reasonable for Americans to now question continued high defense expenditures in light of a new emerging global politico-military constellation which happens to be void of the "evil empire" which provoked the expensive Western security reaction for the past half century. A related question that begs to be addressed is why should American taxpayers be

called on once again to provide help to the former enemy who swore to bury us?

The short answer is that it is in our national interest. Considering the sunk cost of the Cold War project, economically the marginal cost to ensure that our former adversary continues toward a more compatible and cooperative posture is relatively insignificant. Although one can argue it is no longer necessary to defend against a weak opponent, there are at least two historical factors working against us. First, empires have neither willingly nor peacefully dissolved in the past. Second, there is no precedent to ensure the transition from a command economy to a market one will be successful -- and with it conversion from atheistic totalitarianism to pluralistic democracy which we would definitely judge to be in our interest.

In hosting an international conference last December to coordinate aid to the former Soviet Union, Secretary Baker called for a "diplomacy of collective engagement." In a speech at Princeton University, Baker warned that the "peoples of the former union are tired and hungry, disoriented and confused. These people must be able to see that democrats and reformers can deliver the goods, that there is some cause for hope."² Admittedly symbolic in scope, these initial efforts focused on critical short-term needs such as food, fuel and shelter with the tougher issues to be addressed later. The whole situation will likely be very frustrating to Americans. Being typically impatient, we want to see action and immediate results (as do the citizens in all the former communist countries) but the

transformation of the former Soviet Union will undoubtedly be a long-term project measured in years if not decades.

Thus we are interested in buying stability which in essence means buying time. Our efforts to aid Russia and company are not totally altruistic or humanitarian. If the former Soviets are not successful in this reform venture, most likely a force will appear to turn back the clock of progress and our potential defense costs will once again become significant. We would also be faced with a return to those national anxieties with which we have lived for nearly fifty years. What we're proposing through targeted assistance is similar to buying some term insurance to cover the vulnerability period until the patient becomes self-sufficient or dies.

Without attempting to set the historical context, we'll cut to the final act and examine some of the suggestions for aid to the CIS and judge whether we should proceed with them. Possibilities for assistance are legion because the whole system has eroded and is in need. Some proposals focus on near-term humanitarian aid to keep the destitute alive. Others are interested in technical assistance to restructure the economy, to convert the Soviet military-industrial complex toward the production of consumer goods, or to safeguard the reduction of nuclear weapons and prevent proliferation of nuclear technology. All of these are worthy goals as the United States and its Western partners attempt to keep the patient comfortable while he swallows some very distasteful medicine.

WHAT'S THE HURRY?

If one were to believe the utterances of the Russian leaders, time is of the essence. Deputy Prime Minister Yegor Gaidar, the architect of Yeltsin's economic shock treatment, believes economic health is at least five years away yet Russian President Boris Yeltsin warned the international community that unless foreign assistance is stepped up dramatically, "a new dictatorship may arise to crush Russia's fragile experiment with democracy and free-market economics." Since the August coup followed Mikhail Gorbachev's earlier warning by a matter of weeks (and former Foreign Minister Shevardnadze's by a matter of months), we are at least obliged to acknowledge the possibility of continued internal strife in Russia and we must consider its impact on us.³

DOMESTIC CONSTRAINTS

Any selected course of action regarding foreign aid must clearly be in the U.S. interest, particularly in an election year when rhetoric is cheap and the domestic economic scene is grim. This means assistance initiatives not only have to be in our interest, they must also be capable of being packaged and marketed in a way which the American people will buy. And they will not accept a "no strings attached" approach. Even after the coup, 75 percent of Americans polled opposed direct cash grants to the Soviets and less than half favored low-interest loans.

The most popular option (80% support) was to provide technical advice on how to rebuild their economy.⁴

Thomas Schelling believes the U.S. is acting like a poor nation, not the rich nation it actually is. He's not worried about increasing the U.S. national debt by a quarter, or some \$250 billion, to aid the former Soviet Union at this critical juncture.⁵ I'm willing to accept the amount based on logic and self-interest but I'm not willing to go nearly that far politically. And let's face it, this issue is just as much about politics as it is economics and security policy. However, trying to condense U.S. policy vis-a-vis the former Soviet Union into a 30-second soundbite is both difficult and dangerous.

On the other hand, the U.S. is open to charges of hypocrisy if it doesn't provide substantial aid. We have been touting the superiority of democracy and capitalism over communism and central planning for the better part of the twentieth century. If we now proclaim our sorrow and inability to help because we're broke, it is easy to imagine the impressions created and the doubts of our sincerity.

CONDITIONS FOR AID?

Leaders of the Western countries agreed last year that the Soviets must slash defense spending before they would agree to provide large-scale financial aid. The Russian Parliament approved a fairly austere budget on January 24, 1992 that Deputy Prime Minister Gaidar said would slash arms purchases to less

than one-seventh of last year's level - claiming only to purchase spare parts to keep existing military equipment operating. The military budget was reduced to 4.5 percent of the GNP, far lower than in the past and definitely a step in the right direction. All capital investment in the military account will supposedly go toward officer housing in an attempt to satisfy demoralized soldiers and to prevent a possible military coup.⁶

The cuts in military spending were only part of what Russian officials described as a draconian budget intended to destroy the remnants of the centralized Soviet economic system. The budget slashed subsidies to agricultural and industrial producers from 9 percent to 2.7 percent of GNP. The expected result is a rapid increase in unemployment to 7 or 8 million workers, a rate of 10 to 12 percent. Social upheaval from this budgetary action in a state where everyone was previously "employed" is certainly a risk. The positive aspect of the budget is that 63 percent of the funds are slated for education, health and other social needs - a far higher share than before but a net decrease due to the declining GNP and falling revenues. In addition, the new republics are still faced with hyperinflation - Russian officials predict 400 percent for the first quarter of the year.⁷

OBSTACLES FOR AID

There are a number of factors which impede efforts to develop and implement an assistance program for the former Soviet republics. Although not intending to denigrate or slight the

other republics, the Russian Federation will receive the most attention due to its historical, geo-political, and strategic importance plus the fact that it is much further down the reform road toward a market economy. Initially I'll look at some of the things the Russians are doing which complicate our efforts and later in the paper we'll look at the absence of political and economic reorganization which likewise acts as an obstacle.

Politically, a troublesome hinderance to U.S. assistance efforts is the continued export of Soviet military equipment to non-friendly countries, particularly Iran.⁸ Although Western countries don't hesitate to produce and export arms, we are reluctant to see the former Soviets continue to do so - even though that is probably the one area in which they really excel. In addition to helping unfriendly regimes, we fear the uncertainty of Russian long-range intentions. We are not keen on supporting their inefficient military-industrial complex while allowing our defense industrial base to erode as we draw down our armed forces.

In late February President Yeltsin, Air Marshal Shaposhnikov and other Russian leaders asserted that arms production would not be severely curtailed since the hard currency earned from arms sales could be used to buy equipment to produce consumer goods. Besides, many workers and their families are dependent on the industry's survival. Despite protests from Russian economics czar Gaidar (who wants to wean heavy industry from its dependence on military contracts while keeping close central control over arms exports), Yeltsin adviser Mikhail D. Malei recently traveled

to the economically troubled autonomous republic of Udmurtia within the Russian Federation with a proposal to make the area an arms production paradise. Rather than jettisoning one of the few achievements of Soviet power, he argued that they should maintain their technical skills and expertise and turn the republic into a world-class arms manufacturer able to compete with high-tech Western firms.⁹ This plays well in Izhevsk but causes concern in Peoria, especially when the Russians are urgently pleading for assistance out of the other side of their mouth.

How desperate are the Russians for hard currency? At the Dubai airshow in November 1991 they displayed for sale their top of the line weapons systems to include MiG-31 interceptors, Su-27 fighters, Mi-28 attack helicopters plus nine other aircraft types. The Russians promised not to sell arms to countries in volatile areas but a quick review of their clientele reveals their customers to be in such areas - and judged by the United States often to be the cause for regional instability.¹⁰

It's also instructive to look at a persisting structural problem which stems from the way the Soviets did business. Large sectors of the country were based on arms industries with entire towns built around weapons facilities, essentially their *raison d'etre*. To shut down these facilities would leave the towns with massive unemployment. The people would have no product to offer in a market economy, thus no means to subsist.

Look at the giant Iuzhmash factory in Ukraine which produces SS-18 strategic missiles. It's trying to diversify into grain silos, trolley buses and sausage-making machines but these other

products just don't replace the primary moneymaker. The missile factory strives for self-sufficiency (at the cost of efficiency) by feeding its work force from its own 12,000-acre farm and by housing most employees in factory-built apartments.¹¹ There is an acute shortage of housing everywhere and the only available housing is that built around these factory towns which now lack the locomotive that kept them going. For example, in St. Petersburg, 74 percent of the enterprises belong to the munitions industry and there are essentially no natural resources. If the arms export trade were curtailed, the city couldn't survive according to Yeltsin aide Galina Starvoitova.¹²

Deputy Defense Secretary Donald Atwood led a business group to the former Soviet Union late last year to examine ways to help the Soviet military-industrial complex develop civilian products. Atwood noted serious obstacles to U.S. investment but pledged government support as a catalyst for private industry in the conversion program. The January 1992 Russian budget allots 13.5 billion rubles to encourage conversion of arms factories to production of consumer goods. But the conversion problems are horrendous both politically and economically. For one thing, the Soviets neglected upkeep on the country's infrastructure and their successors now desperately need to modernize factories to be competitive in a market economy system. Another basic problem is that Russian managers don't understand how a market economy works. They don't even know what their costs are because they never had to track them previously. Foreign investors are justifiably reluctant to jump blindly into joint ventures under

these circumstances.

WHAT WE HAVE DONE TO DATE

We can conclude de facto that some assistance to the former Soviet Union must be in our national interest since the United States has already provided aid and U.S. government policymakers have announced steps for further assistance. Both Congress and the Bush Administration are jockeying for position on the sensitive foreign aid issue because of domestic political concerns and the weak economic state of the Union. Congress staked the first claim to action by approving the diversion of \$400 million from defense funds to assist the former Soviets in dismantling Soviet nuclear arms - down from an initial inclination to provide \$1 billion. The Administration pledged another \$100 million for transportation of humanitarian aid and reprogrammed \$100 million from other aid programs in 1992 for technical assistance to the republics. The Administration also pledged to double over the next 18 months the \$20 million worth of medical supplies already sent to the republics through Project Hope. At the end of January, Secretary Baker announced the United States would ship 38.4 million pounds of food left over from the Persian Gulf War and excess DoD medical supplies under Operation Provide Hope.¹³ For political reasons, the Administration sought to play down the aid to domestic audiences by stressing that most of the donations came from existing stocks, with much nearing the end of its shelf-life.

WHITHER THE NUKES?

Although today we perceive no malicious intent on the part of the Russians, their nuclear capability remains intact and thus demands our attention as the command and control structure (and the entire Soviet military for that matter) undergoes radical change. The Soviets agreed to substantial reductions of nuclear weapons and delivery systems in the recently concluded START Treaty. The only problem is they now claim they don't have the money to implement the destruction they agreed to. This development occurred before the recent round of additional unilateral reduction declarations by our respective presidents and one can only wonder how Yeltsin expects to fulfill these promises.

Officials in Moscow and Kiev say that U.S. aid is needed to proceed rapidly with warhead storage and dismantlement in order to meet the timelines set in the START Treaty. The Russians declined Western offers to help dismantle nuclear weapons on grounds that state security would be compromised. On February 17, 1992 Secretary Baker announced the United States would provide 25 special high-security railroad cars and 250 large containers to help Russia safely move and store nuclear warheads. In addition, the United States and Russia agreed to build facilities to store radioactive uranium and plutonium from dismantled nuclear weapons and to modify weapons-grade uranium for use as fuel in civilian nuclear reactors.¹⁴ Without

Western assistance, Russia would need five-to-seven years to construct warehouses to store plutonium extracted from warheads and only then could Russia begin the disarmament process according to Viktor Mikhailov, Deputy Minister for Nuclear Power.¹⁵ Helping the CIS rid the world of a substantial number of deployed nukes is unquestionably in our interest.

Senator Levin recently endorsed a unique approach to assist a key component of the Soviet nuclear program - namely the intellectual power which created it. The Senator suggested providing some \$2 million annually to care of 2000 top Soviet scientists and their families to prevent them from taking their knowledge and experience to dubious customers who are soliciting them with enticing offers.¹⁶ At least his math is confirmed by Dr. William G. Sutcliffe of the Lawrence Livermore National Laboratory who calculated that only \$10 million a year could finance the work of 10,000 important nuclear experts in the former Soviet Union.¹⁷ In either instance, this tact would target members of the Russian elite for assistance while ignoring the plight of the vast majority of the populace. But it is a credible strategy since it is undoubtedly in our national interest to prevent proliferation of nuclear and ballistic missile technologies which could come back to haunt us in the future.

CIA Director Robert Gates told the Senate Committee on Governmental Affairs that "the intelligence community believes the leakage of Soviet military technology to these [certain] countries is more likely than any Soviet loss of weapons or

nuclear materials amid domestic turmoil." Of greatest concern was the subset of well-treated experts whose skills, such as developing chemical and biological arms, have no civilian counterpart.¹⁸

In February Dr. Edward Teller also advocated coming to the rescue of his brother nuclear scientists in the former Soviet Union. He argued that these scientists can not only save us money by sharing some of the technology they developed for space and military projects but he also asserted that such an investment would pay for itself many times over during the next 25 years by contributing to the creation of a stable world.¹⁹ Despite the considerable disparity of opinion in this country on security matters according to one's political persuasion, no one has come up "on net" to protest attempts to control the Soviet nuclear genie. It can be safely assumed that there is consensus that these efforts are in the U.S. interest.

It is also not out of the question to employ these talented people to tackle the almost hopeless environmental catastrophes which riddle the republics. Swedish Prime Minister Bildt suggested to President Bush in February that unemployed physicists in the former Soviet Union should tackle the safety problems inherent in the Soviet-designed nuclear reactors in Eastern and Central Europe (40 of the 58 are older designs which would immediately be shut down in the West).²⁰

A step in this general direction was announced in mid-February by President Bush who pledged \$25 million for a science and technology institute to be jointly administered by the United

States, Germany and Russia to employ former Soviet nuclear scientists. The center will be "a clearinghouse for developing, selecting, funding and monitoring projects that would be carried out primarily at institutions and facilities in the Russian Federation ...". The focus of the project is to give weapons scientists and engineers "opportunities to redirect their talents to non-military endeavors." This agreement satisfies Congressional conditions that these nuclear scientists not be permitted to engage in military work nor contribute to the modernization of Russia's arsenal.²¹

It's probably in our collective interest to target various other segments of the intelligentsia for private as well as governmental financial support. While the logic of the argument is sound, I'm not sure there is enough trickle-down potential to make aid to the elite a viable stand-alone option. This approach does not address the moral question of neglecting the majority of the citizenry. These people can only be helped if we also take actions to promote a systemic change of the entire society. That in turn can only be accomplished if the people themselves so desire and there is little positive evidence to support the thesis that they do and considerable anecdotal evidence to the contrary.

MORE DISPOSAL PROBLEMS

During the last six months of the CFE Treaty negotiations there was a vehement debate which paralleled the one dealing with

disposal of nuclear weapons. The Soviets realized that they would be required to destroy many thousands of pieces of conventional arms. They therefore began to move this equipment out of the zone of application (to east of the Ural mountains) as one means to limit their reduction liability but with the political pricetag of enduring Western mistrust. The republics still face a gigantic destruction project which will cost them a lot of money they don't have.

Although we're obviously concerned about the disposition of Soviet nuclear weapons, most observers discount their intentional use for the foreseeable future. On the other hand, a quick review of the world's hotspots shows significant current and potential use of conventional weapons. Clearly some Western investment in the direct destruction of Soviet weapons before they are used or sold into troubled areas is a very cost-effective application of the taxpayers' money. Such an opportunity presented itself only in dreams heretofore and we should seize the moment.

AID FOR DEMOCRACY

I'm afraid I have some difficulty following the logic of those who argue that the prime reason for aid to Russia is to promote democracy. While supporting President Bush's announced aid package in a recent article, the editors of the Washington Post skipped straight from offering financial assistance to the establishment of democracy and cite how much money that will save

us.²² Lately this type of thinking has appeared often in print and I'm disturbed over the lack of intellectual rigor in this approach which omits all analysis of the intervening steps. Even the President is guilty of being carried away with the rhetoric when he recently declared that a central tenet of U.S. foreign policy must be "securing a democratic peace in the new states of the former Soviet Union." Furthermore, he stated that "democrats in the Kremlin can assure our security in a way nuclear missiles never could."²³

The CIS leaders claim to be committed to both economic and democratic reform. I think it is important to remember that their perception of democracy is quite different than ours. Many countries in the former communist block carried the democratic slogan in their state names. Unfortunately we in the West are often guilty of mirror-imaging and we mistakenly assume that Russian democrats believe in those individual rights and freedoms which are enshrined in our Constitution.

When Gorbachev began his glasnost and perestroika initiatives, it was with the intent to conduct serious economic reform. But he had no intention of letting things get so far out of hand as to destroy the Communist Party and to discredit the communist ideal. The leaders on the scene today were Party apparatchiks and spent their entire formative years manipulating the system. They did not develop a deep concern for their fellow man overnight but they know that they must make certain things happen in order to hold on to power. Andy Warhol's clock is ticking in the CIS and the leaders realize their 15 minutes are

about up.

While promoting the spread of democratic values, we should not overestimate our influence in shaping Russian decisions simply because of our current economic superiority. The April 1992 meeting of the Congress of Deputies was the latest forum where perceived kowtowing to the Western solution was condemned. Critics inside and outside the Russian government continue to lambast any structural change which patterns Russia on the Western paradigm. They claim that Russia is unique because of history and location and a Western solution simply won't work.

TECHNO-ECONOMIC ASSISTANCE

Many assistance suggestions focus on the transition of the Soviet command economy into a collection of semi-independent republic market economies. Many economists don't believe such a transition is possible or else fraught with such complex problems as to not be worth the effort. Nevertheless a shock therapy treatment was prescribed for the patient in hopes of keeping him alive. What's the track record of this type of remedy? Poland gave it a go and tried to exorcise those cancerous communist cells. Despite some claims of remittance of the disease, once the anaesthesia of euphoria wore off, the pain persists and no one is talking about immediate recovery. Indeed after a decade of effort, a series of economic crises in the last month has toppled the government and forced leaders to put economic reform behind more immediate social concerns. The prognosis for Russia

is much worse because the disease has spread throughout the body and she waited much longer before seeking remedy.²⁴

In early January Yeltsin blamed Gorbachev for delays in implementing economic reforms: "We lost time. If we had started these reforms two years ago, we would be living normally now. We waited a year and a half, battling with the central government before destroying it completely."²⁵ I don't know Yeltsin's definition of "normal" but it is obvious that years will be needed to correct the abysmal situation. When Yeltsin backed away from complete freeing of prices, it was clear that the people were unable to fully swallow the bitter pill although Yeltsin's proclamations indicate he understands the need for the full dose of medicine in order to recover.

The CIS has hired some of the West's brightest economists to advise them on the transition process. The United States government should be ready to step forward to guarantee American business ventures once the CIS members craft a responsible legal system to protect their rights. To facilitate that process, we should continue present efforts to provide them with Western legal expertise to help in drafting laws and regulations dealing with private ownership, intellectual property rights, taxes, etc. Certainly no one would object to exporting some of our excess supply of lawyers, although the end result may be the eternal enmity of the Russian citizen.

Should the West provide Russia economic aid? It is not the intent of this paper to thoroughly examine the complexities of Russian economic reform. Most of us cannot understand the inner

mechanisms of money supply, currency stabilization, currency convertibility and the like. Even a group of top economists cannot agree on how the pieces fit together and what the proper scope and sequence of events should be.

Boris Yeltsin's pleas, coupled with scarcely veiled threats, for large amounts of Western currency to use for a stabilization fund for the ruble may not be founded on good economics. Some believe he's inviting us to watch good greenbacks follow red rubles down a black hole. It is difficult to convince Western taxpayers to help the ruble when lax enforcement of Russian banking laws has allowed the capital flight of some \$15 billion to \$40 billion of hard currency by Russian citizens for safekeeping abroad.²⁶

Ed Hewett, President Bush's National Security Council adviser on the former USSR recently told a congressional panel that the republics cannot account for some \$40 billion in aid provided in 1991. Throwing more money at an inefficient economic system with no chance of recovery is not in our interest, nor does it really help the Russians. Massive foreign aid would only delay reform by serving as a life-support mechanism for the existing system. On the other hand, investing in a manner which facilitates economic structural change and which helps maintain stability and prevents violence during the transition is in our interest.

Secretary Baker announced in Moscow on February 18, 1992 that the United States would support Russia's bid for membership in the International Monetary Fund (IMF) and the World Bank.

President Yeltsin then opened Russia's finance books to the two international organizations which sent teams to Moscow in anticipation of a membership decision in late April. The IMF is developing the currency stabilization plan and the members of the Group of Seven announced on April 1 that they would contribute \$6 billion to create a ruble stabilization fund.

In addition to this contribution, the Group of Seven further agreed after some six months of negotiations to provide the ex-Soviet states with \$18 billion in loans, debt deferral and other financial assistance from international financial institutions to help the former republics cover shortages in their balance of payments. The U.S. share of the total \$24 billion package comes to about \$6.6 billion. It appears that Western leaders are convinced the Russians really have taken the big leap to cross the economic chasm. If not that, they're at least willing to risk expending some political capital to ensure they're not later held accountable if "Russia is lost."²⁷

WHAT IS TO BE DONE?

This is a question which has plagued the Russians for years. Chernishevsky first penned the phrase with a much different meaning than Lenin subsequently popularized. In an irony that must cause Lenin to roll over in his mausoleum, today's Russian leaders have concluded they must get the means of production back into the hands of the people. That means, for one thing, that the people need to be given the land and then held responsible

for producing. Unfortunately, the people have forgotten how to farm privately following a 70 year hiatus from the business. The sad thing is that many common people resent anyone from their midst striving to be prosperous or to get ahead. There's a cultural bias to keep one's head low and survive with a close group of friends and relatives which has nothing to do with economics per se. The communist system rotted the fiber of the society and nothing less than a resurrection of the Russian soul is required to rebuild the state. An efficient and just legal system which ensured the rights and property of those trying to privatize would greatly encourage the entrepreneurial spirit.

How could the West help in this business? Although perhaps not technically aid, Western investment would provide critical assistance to the former Soviets as they endure their economic metamorphosis. To make that happen, Moscow must introduce more reliable currency and banking systems, a legal basis of respect for private property and an acceptance of foreign firms' legitimate right to extract a profit from investments. That is, they must create a mutually beneficial arrangement.

For long-term benefits we could provide funds and credit guarantees for the small businessman and private farmer. It is at the individual level that inroads must be made in rebuilding the state. You have to build from the bottom up, not from the top down. There are presently too many layers of bureaucracy which contribute nothing to output which cannot be eliminated by decree. Additionally, actions which encourage private investment without incurring inordinate risks for the U.S. taxpayer should

be pursued.²⁸ One of the most frequent suggestions is repeal of U.S. laws that limit Export-Import Bank financing and other forms of credit for investments in Russia. Indeed, President Bush included this item in the package he announced on April 1, 1992 and Congress has already begun to act on it.

One concrete area with promising potential for technical assistance or joint venture is the Soviet petroleum industry. The industry appears to be collapsing and thereby threatens many other industries dependent on oil products for transportation, heating and fuel. Prior to its disintegration, the Soviet Union was the world's largest oil producer but its output declined at least 20 percent over the last three years due to idle wells, mismanaged fields, leaking pipelines and shortages of equipment and skilled labor needed to keep the oil flowing and the refineries operating.²⁹ With the loss of oil and petroleum products, the republics lose one of the few sources of foreign currency needed to finance essential imports. U.S. petroleum firms are the best in the world and are poised to contribute in this regard. Due to the current weak domestic situation, the U.S. oil industry has unemployed oilfield engineers and technicians which could help the Soviets manage their oilfields and maintain their equipment - an area in which the Soviets are notoriously negligent.

AGRICULTURAL AID

U.S. policy worldwide has been to provide technical

assistance to make agriculturally deficient countries self-sufficient rather than maintaining a dependence by merely supplying food. The Soviets clearly want both the food and the technology. In December, the Bush Administration approved the latest installment of a \$3.75 billion loan program to enable the Soviets to purchase U.S. agricultural products. A political fight is developing over whether the Soviets will be able to repay the loans or default and leave the U.S. taxpayer to pick up the tab. Although the Soviets presently have poor creditworthiness, the program was continued on the argument that the credits were needed to stave off possible famine and the attendant social upheaval. A major concern with the credits is that due to an antiquated distribution system, inefficient state planning and other economic failings, any grain purchased is susceptible to rotting on the docks or benefitting bureaucrats who control the distribution system.

On the domestic front, the consulting group World Perspectives Inc. maintains that each additional \$100 million in Soviet credits would shrink U.S. farm subsidy outlays by an equal amount and increase farm income by \$120 million. If true and if the U.S. taxpayer foots the bill either way, it makes sense to help the republics and garner some goodwill in the process. Besides, failure to grant Soviet credits would halt about 21 percent of U.S. grain exports and only exacerbate the plight of this weak domestic economic sector.³⁰

WHAT DO WE GET OUT OF THIS?

We have alluded to goodwill, stability, reversal of a costly long-term adversarial relationship with the USSR, to include diminution of a number of irritating hotspots around the world, and other intangibles, but what concrete benefits does the United States get from an assistance program? For one we get our foot in the door of the Russian petroleum industry and possibly develop another source of energy. In the long term, the potential to create important markets and associated export related jobs cannot be dismissed. We also hope, of course, to reduce defense expenditures and increase spending on domestic social programs.

There is general agreement that the Soviets have developed some impressive technologies, particularly in the basic sciences, but they do not have the manufacturing technologies of the Western industrial powers. Certainly the Soviets created an impressive space program and developed technologies with applications for space exploration and military space control. Perhaps there is room for beneficial cooperation. Some see advantages in utilizing Soviet space technology such as nuclear-thermal rockets or low-thrust electric propulsion space engines rather than spending the money and years to replicate the progress already made. The White House announced approval on March 27 for the first U.S. purchases of space technology and nuclear materials from Russia.³¹ The \$14.3 million set of deals demonstrates a cooperative approach that aids the Russians

and helps us too.

The Soviets are currently commercializing much of their surplus military space program, providing satellite launches and space services for a number of countries.³² In addition, they have already indicated that they are now interested in discussing space-based defensive systems with us - so the sky is the limit for possible collaboration.

CAN WE TRUST THEM?

The Russians sought to divide Western alliance partners throughout the Cold War. When the defunct Warsaw Pact ceased to exist militarily and then politically, the Soviets immediately campaigned for the disbandment of NATO (until someone pointed out to them that NATO was the most effective mechanism to contain any nascent German expansionist tendencies). Even after the declared end of hostilities and vows of renewed friendship, the former Soviets sought to exploit vulnerabilities in the facade of Western unity. For one, they encouraged squabbling between key NATO partners over who was doing more than the other with regard to aid efforts. We should not permit any assistance program for the republics to weaken Western unity and our collective security.

It's prudent to remember the response of Lenin some seventy years ago when questioned where the revolutionaries would get the resources to defeat the West. He responded that the West would provide the rope with which it would be hung. We're faced with a

dilemma: is this really an opportunity to contribute to the total defeat of communism and to assist the unalterable process toward freedom? Or is it possible that we'll get hoodwinked once again and be faced with the stark reality that we were again talked into helping a mortal enemy who choose the expediency of a tactical retreat? There is much in Soviet doctrine and literature to encourage our wariness and anyone who has dealt directly with Soviet government officials finds it difficult to trust them now. While pretending to cultivate good relations with the West during multilateral arms control negotiations, the Soviets were not embarrassed and saw no inconsistency in lying to their Western interlocutors if they perceived it to be in their country's interest. And these same people are now out there representing the republics.

CONCLUSION

Webster's dictionary defines aid as providing what is useful or necessary in achieving an end. The key task for the United States is to define what it wants from the former Soviet Union and then to target its assistance accordingly. Is it in the U.S. interest to aid the Russians? Yes and no. The answer depends on the who, how, when and how much. What is in the U.S. interest is maintaining stability and a peaceful transformation of the Soviet empire into a cooperative entity. We most probably have not seen the end of problems and undemocratic change of governments in the former Soviet Union. Tensions run high in the

military and demonstrations in the streets call for a return to communist rule or something akin to it.

We're stuck with that familiar old conundrum - how do we always manage to get caught in the position of paying for the sins or excesses of others? Are we naive, stupid or too trusting in our foreign policy? We restored Germany and Japan from ashes to world powers and allies and now we're struggling for a solution to Russia. The basic problem is that no matter how much food, medicine and economic assistance we provide in the upcoming months, it will have little, if any, impact on the long-range restructuring of the former Soviet Union which is absolutely essential if they are going to make it. What we can buy through selected assistance programs is time, which hopefully is on our side. It's a wise investment to pay a few more insurance premiums until we determine if the patient's condition is stable and improving with recovery in sight.

ENDNOTES

1. Washington Post, 23 Jan 92, p C3, David Hackworth.
2. Secretary of State James Baker, "America and the Collapse of the Soviet Union: What Has to Be Done" Address at Princeton University, Princeton, NJ, December 12, 1991.
3. Washington Post, 7 Feb 92, p A22, William Orezdiak. Yeltsin bluntly said that "the West must realize that if Russia fails in its reforms, especially of the economy, a dictator will appear. That's why the international community must contribute to a solution." Yeltsin further chided French businessmen for failing to invest in Russia during his February, 1992 visit to Paris: "Perhaps you can save a franc today but if the Cold War returns, you will end up paying a thousand times more." Ditto for the dollar. It reminds me of the old oil filter commercial whose punchline was "you can pay me now [a little] or you can pay me later [a lot]." But it's more than just an engine problem with the former Soviets, it's the whole car - probably a Trabi or the Russian equivalent.
4. Washington Post, 29 Aug 91, p A39, Washington Post - ABC News Poll.
5. Thomas Schelling lecture on "Non-traditional Threats" at the National War College, 25 Feb 92.
6. Washington Post, 25 Jan 92, p 1, Fred Hiatt.
7. Washington Post, 25 Jan 92, p 1, Fred Hiatt.
8. Recent disclosure that Russia will supply Iran \$4 billion worth of weapons is troubling at a minimum.
9. New York Times, 24 Feb 92, p 1, Celestine Bohlen.
10. Washington Post, 23 Feb 92, p A1, David Hoffman. The one "concession" to Western sensitivities was that Russia would forgo the Soviet Union's prior ideological approach to arms sales and would be in the arms business solely for money.
11. Washington Post, 30 Jan 92, p A16, Chrystia Freeland.
12. Washington Post, 23 Feb 92, p A27, David Hoffman.
13. Washington Post, 24 Jan 92, p 1, David Hoffman.
14. Washington Post, 18 Feb 92, p A1, David Hoffman.
15. Washington Post, 5 Feb 92, p A22, Fred Hiatt.
16. Senator Carl Levin, lecture at the NWC, 27 Jan 92.

17. New York Times, 14 Jan 92, William J. Broad. Despite the relatively small numbers cited in such illustrations, one must remember that the problem is bigger and more complicated than it seems at first glance. For example, the Tokyo newspaper Yomiuri Shibun, citing a secret Russian document, reported late last year that 755,800 experts and their families lived in ten top-secret Soviet cities devoted to nuclear arms work. Who know the real extent of this problem?

18. Washington Post, 16 Jan 92, R. Jeffrey Smith.

19. Washington Post, 23 Feb 92, p C1.

20. Washington Post, 22 Feb 92, p 14, John M. Goshko. In a similar vein, Dr. Thomas L. Neff, a physicist at MIT who attended the Kiev conference on warhead dismantlement last December, opined that "the U.S. should hire all of them and put them to work on some hard technical problems. It would be cheaper than buying a battleship." (New York Times, 26 Jan 92, p 27) He's probably right on the cost issue but since we're not planning to buy another battleship, the comparison is somewhat irrelevant.

21. Washington Post, 18 Feb 92, p A1.

22. Washington Post, 2 Apr 92, p A26.

23. Washington Post, 4 Apr 92, p A1, Don Oberdorfer and Ann Devroy.

24. The emerging democracies of Central and Eastern Europe can't compete on a level economic playing field and they will never become competitive if they don't get a chance to get into the game to get some experience. To put things into perspective, Lothar Spatz, former chief executive of the German state of Baden-Wuerttemberg and now chairman of Jena Zeiss at the heart of the new Germany's high-tech industries recently claimed that "both parts of Germany would be on a single playing field within four or five years, but the same thing would take 30 to 50 years in Russia." (Washington Times, 7 Feb 92, p F-1, Arnaud de Borchgrave.)

25. Washington Post, 7 Jan 92.

26. Boston Globe, 5 Apr 92, p 65, David J. Kramer and David E. Powell.

27. Washington Post, 2 Apr 92, p A1, Ann Devroy.

28. For those people who don't mind taking some investment risk, like Savings & Loan managers for instance, here's an idea: The former Soviet Union claims that other countries, particularly former client states in the Third World, owe them debts worth \$104 billion but they would be willing to sell them at the substantial discount of \$45 billion to Western financial institutions in order to raise hard currency. Any takers?

29. The Dutch Foreign Minister, Hans van den Broek, explained the huge wastage in the former Soviet energy industry: "Oil fields in the republics burn off about 35 billion cubic meters of natural gas a year, equivalent to the annual consumption of the Netherlands." (Los Angeles Times, 24 Jan 92, p 10, Norman Kempster and Michael Ross.)

30. Washington Post, 13 Dec 91, Guy Gugliotta.

31. Washington Post, 28 Mar 92, p A1, Thomas W. Lippman.

32. In November 1991, Kazakhstan changed the Baikonur Space Center into a joint-stock company called International Spaceport and they're open for business.